



DEPARTMENT OF
FINANCE
OFFICE OF THE DIRECTOR

ARNOLD SCHWARZENEGGER, GOVERNOR

STATE CAPITOL ■ ROOM 1145 ■ SACRAMENTO, CA ■ 95814-4998 ■ WWW.DOF.CA.GOV

MAR 30 2006

Honorable Wesley Chesbro, Chair
Senate Budget and Fiscal Review Committee

Attention: Mr. Danny Alvarez, Staff Director (2)

Honorable John Laird, Chair
Assembly Budget Committee

Attention: Mr. Christopher W. Woods, Chief Consultant (2)

Amendment to Budget Bill Item 1900-001-0950 and Addition of Budget Bill Item 1900-001-0942, Support, California Public Employees' Retirement System

It is requested that Item 1900-001-0950 be increased by \$2,935,000 to provide one-time funding to enable California Public Employees' Retirement System (CalPERS) to perform a requirements analysis and cost study to determine the feasibility of accepting contracting agencies' pre-funding contributions for Other Post-Employment Benefits (OPEB) liabilities. Effective at the end of the 2007-08 fiscal year, public agencies must begin disclosing the amount of their unfunded liability for retiree benefits other than pensions. CalPERS intends to provide contracting agencies with a single point of service for the actuarial studies required to determine the unfunded liability of their retiree benefits, usually health care.

It is requested that Item 1900-001-0942 be added in the amount of \$489,000 and 5.5 positions to provide resources for the CalPERS Health Benefits Branch to implement the processing of Medicare Part D eligibility files and subsidy requests. The federal Medicare Part D provides subsidies to employers who provide prescription drug coverage for their retirees in Medicare. It is estimated that the state's subsidy for retiree health care will be approximately \$38 million for fiscal year 2006-07, which will be deposited into a Special Deposit Fund. These resources will enable CalPERS to request this subsidy as the state's agent.

The effect of my requested action is reflected on the attachment.

If you have any questions or need additional information regarding this matter, please call Tim Lynn, Principal Program Budget Analyst, at (916) 445-3274.

MICHAEL C. GENEST

Director

By:

VINCENT P. BROWN

Chief Deputy Director

Attachment

cc: On following page

MAR 30 2006

cc: Honorable Kevin Murray, Chair, Senate Appropriations Committee
Attention: Mr. Bob Franzoia, Staff Director
Honorable Dennis Hollingsworth, Vice Chair, Senate Budget and Fiscal Review Committee
Attention: Mr. Jeff Bell, Staff Director
Honorable Judy Chu, Chair, Assembly Appropriations Committee
Attention: Mr. Geoff Long, Chief Consultant
Honorable Rick Keene, Vice Chair, Assembly Budget Committee
Attention: Mr. Peter Schaafsma, Staff Director
Honorable Michael Machado, Chair, Senate Budget and Fiscal Review Subcommittee No. 4
Honorable Rudy Bermúdez, Chair, Assembly Budget Subcommittee No. 4
Ms. Elizabeth Hill, Legislative Analyst (4)
Ms. Diane Cummins, Senate President pro Tempore's Office
Mr. Craig Cornett, Assembly Speaker's Office (2)
Mr. David Harper, Deputy Chief of Staff, Assembly Republican Leader's Office
Mr. Fred Buenrostro, Chief Executive Officer, California Public Employees' Retirement System

CBS313R
UNIT DATABASE
(BUFF)

DEPARTMENT OF FINANCE
2006-07 CHANGE BOOK
WORKSHEET - Finance Letters

PAGE: 1
DATE: 03/17/06
TIME: 10:40:06

DEPT: Public Employees' Retirement System
STATE OPERATIONS

1900-001-0950 06 06 N
***ORG-REF-FUND YOA YOB**

ITEM TITLE:
001 Budget Act appropriation

ISSUE: 002 P98: N
P98 ISSUE:

DATE SIGNED: MAR 30 2006

ISSUE: 002 Assist Contracting Agencies to Comply
with GASB 45

---DETAIL CHANGES---	POS/PY	TYPE/LANG
CalPERS is requesting a one-time increase in expenditure authority from the Contingency Reserve Fund to perform a requirements analysis and cost study to determine the feasibility of accepting public agencies pre-funding contributions for OPEB liabilities.		*
Operating Expenses and Equipment		2,935,000 *
TOTAL FINANCE LETTER CHANGES	0.0	2,935,000 *
TOTAL DETAIL CHANGES	0.0	2,935,000
---SCHEDULE CHANGES---		
00.00.500.000 Unscheduled		2,935,000 *
NET IMPACT TO 1900-001-0950		2,935,000 *
TOTAL NET IMPACT TO 1900-001-0950		2,935,000

POSITION CHANGES FOR ISSUE NUMBER	AMOUNT	ASM CONSULTANT: AZD
REG/ON-GOING POS 0.0	0	SEN CONSULTANT: BCA
PART YR ADJ PY 0.0	0	DOF ANALYST: Amanda Wallace
TEMP HELP PY 0.0	0	LAO DIRECTOR: M. COHEN
OVERTIME 0.0	0	
SALARY SAVINGS PY 0.0	0	RUN DATE: 03/17/06 10:40:06
-TOTAL- 0.0	0	UPDT TIME: 03/15/06 14:54:46

* DEPT OF FINANCE LETTER

HOUSE=F1 YOB=2006 ITEM=190000109500606
ISSUE= 002
ISSUE-STATUS=L
MULTI-DOF=

CBS313R
UNIT DATABASE
(BUFF)

DEPARTMENT OF FINANCE
2006-07 CHANGE BOOK
WORKSHEET - Finance Letters

PAGE: 1
DATE: 03/20/06
TIME: 15:41:53

DEPT: Public Employees' Retirement System
STATE OPERATIONS

*****NEW ITEM*****
1900-001-0942 06 06 N
***ORG-REF-FUND YOA YOB**

ITEM TITLE:
001 Budget Act appropriation

ISSUE: 001 P98: N
P98 ISSUE:

DATE SIGNED: MAR 30 2006

ISSUE: 001 Medicare Part D Positions

---DETAIL CHANGES---

POS/PY TYPE/LANG

This funding will allow CalPERS to
process the Medicare Part D eligibility
and reconciliation files and subsidy
requests.

The Medicare Part D subsidies will be
deposited into a Special Deposit Fund.
The Special Deposit Fund will pay for
CalPERS' Medicare Part D administrative
costs.

Proposed New Positions	5.5	R	302,000	*
Salary Savings	-0.3	S	-18,000	*
Staff Benefits			113,000	*
Operating Expenses and Equipment			92,000	*
TOTAL FINANCE LETTER CHANGES	5.2		489,000	*
TOTAL DETAIL CHANGES	5.2		489,000	

---SCHEDULE CHANGES---

00.00.500.000 Unscheduled			489,000	*
NET IMPACT TO 1900-001-0942			489,000	*
TOTAL NET IMPACT TO 1900-001-0942			489,000	

POSITION CHANGES FOR ISSUE NUMBER		AMOUNT	ASM CONSULTANT: AZD
REG/ON-GOING POS	5.5	302,000	SEN CONSULTANT: BCA
PART YR ADJ PY	0.0	0	DOF ANALYST: Amanda Wallace
TEMP HELP PY	0.0	0	LAO DIRECTOR: M. COHEN
OVERTIME	0.0	0	
SALARY SAVINGS PY	-0.3	-18,000	RUN DATE: 03/20/06 15:41:53
-TOTAL-	5.2	284,000	UPDT TIME: 03/20/06 10:41:05

* DEPT OF FINANCE LETTER

HOUSE=F1 YOB=2006 ITEM=190000109420606
ISSUE= 001
ISSUE-STATUS=L
MULTI-DOF=

STATE OF CALIFORNIA
FINANCE LETTER - COVER SHEET
FOR FISCAL YEAR 2006-2007
DF-46 (WORD Version)(REV 01/06)
Please report dollars in thousands.

Department of Finance
915 L Street
Sacramento, CA 95814
IMS Mail Code: A-15

BCP # 1	PRIORITY NO. 1	ORG. CODE 1900	DEPARTMENT California Public Employees' Retirement System (CalPERS)
PROGRAM Health Benefits	ELEMENT Health Benefits	COMPONENT	

TITLE OF PROPOSED CHANGE
Medicare Part D Positions

SUMMARY OF PROPOSED CHANGES

The California Public Employees' Retirement System (CalPERS) Health Benefits Branch (HBB) is requesting permanent funding of \$439,000 to establish five and one-half (5.5) permanent full-time positions and one-time funding of \$50,000. These positions are required to implement the processing of Medicare Part D eligibility files, reconciliation files and subsidy requests.

REQUIRES LEGISLATION <input type="checkbox"/> YES <input type="checkbox"/> NO	CODE SECTION(S) TO BE AMENDED/ADDED	BUDGET IMPACT—PROVIDE LIST AND MARK IF APPLICABLE <input type="checkbox"/> ONE-TIME COST <input type="checkbox"/> FULL-YEAR COSTS <input type="checkbox"/> FACILITIES/CAPITAL COSTS <input type="checkbox"/> FUTURE SAVINGS <input type="checkbox"/> REVENUE
---	-------------------------------------	---

PREPARED BY <i>Harry A. Jones</i>	DATE 3/30/06	REVIEWED BY <i>Tami Westbrook</i>	DATE 3/30/06
DEPARTMENT DIRECTOR <i>interim for</i>	DATE 3/30/06	AGENCY SECRETARY <i>Posano Martin</i>	DATE 3/30/06

DOES THIS BCP CONTAIN INFORMATION TECHNOLOGY (IT) COMPONENTS? YES ☐ OR NO ☐
IF YES, DEPARTMENT CHIEF INFORMATION OFFICER SIGNATURE DATE

FOR IT REQUESTS, SPECIFY THE DATE SPECIAL PROJECT REPORT (SPR) OR FEASIBILITY STUDY REPORT (FSR) WAS APPROVED BY THE DEPARTMENT OF FINANCE.

DATE PROJECT # FSR ☐ OR SPR ☐

IF PROPOSAL AFFECTS ANOTHER DEPARTMENT, DOES OTHER DEPARTMENT CONCUR WITH PROPOSAL?

☐ YES ☐ NO

ATTACH COMMENTS OF AFFECTED DEPARTMENT, SIGNED AND DATED BY THE DEPARTMENT DIRECTOR OR DESIGNEE.

DEPARTMENT OF FINANCE ANALYST USE
(ADDITIONAL REVIEW)

CAPITAL OUTLAY ☐ OTROS ☐ FSCU ☐ OSAE ☐ CALSTARS ☐

STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL—FISCAL DETAIL
STATE OPERATIONS
DF-46 (REV 01/06)

Please report dollars in thousands.

Department of Finance
915 L Street
Sacramento, CA 95814
IMS Mail Code: A-15

BCP #	DATE	TITLE OF PROPOSED CHANGE				
1	1/31/06	Medicare Part D Positions				
PROGRAM	ELEMENT	COMPONENT				
Health Benefits	Health Benefits					
	PERSONNEL YEARS			CY	BY	BY + 1
	CY	BY	BY + 1			
TOTAL SALARIES AND WAGES ¹		5.5	5.5	\$	\$301	301
SALARY SAVINGS		-0.3	-0.3		-15	-15
NET TOTAL SALARIES AND WAGES		5.2	5.2	\$	\$286	286
STAFF BENEFITS ²				\$	\$118	118
TOTAL PERSONAL SERVICES		5.2	5.2	\$	\$404	404
OPERATING EXPENSES AND EQUIPMENT ³						
GENERAL EXPENSE					\$11	\$11
PRINTING					6	6
COMMUNICATIONS					6	6
POSTAGE					6	6
TRAVEL—IN STATE						
TRAVEL—OUT OF STATE						
TRAINING					6	6
FACILITIES OPERATIONS						
UTILITIES						
CONSULTING & PROFESSIONAL SERVICES: Interdepartmental ³						
CONSULTING & PROFESSIONAL SERVICES: External ³					33	
CONSOLIDATED DATA CENTERS						
Health and Human Services Data Center				()	()	()
Stephen P. Teale Data Center				()	()	()
DATA PROCESSING						
EQUIPMENT ³					17	
DEBT SERVICE						
OTHER ITEMS OF EXPENSE: (specify below)						
TOTAL OPERATING EXPENSES AND EQUIPMENT				\$	\$85	\$35
SPECIAL ITEMS OF EXPENSE ⁴				\$	\$	\$
TOTAL STATE OPERATIONS EXPENDITURES				\$	\$489	\$439
SOURCE OF FUNDS	APPROPRIATION NO.					
	ORG	REF	FUND			
GENERAL FUND				\$	\$	\$
SPECIAL FUNDS	1900	001	0942	\$	\$489	\$439
FEDERAL FUNDS				\$	\$	\$
OTHER FUNDS (SPECIFY)				\$	\$	\$
REIMBURSEMENTS				\$	\$	\$

¹ ITEMIZED DETAIL ON PAGE I-3 BY CLASSIFICATION AS IN SALARIES AND WAGES SUPPLEMENT.

² PROVIDE DETAIL ON PAGE I-3.

³ PROVIDE LIST ON PAGE I-4.

⁴ SPECIAL ITEMS OF EXPENSE MUST BE TITLED. PLEASE REFER TO THE UNIFORM CODES MANUAL FOR A LIST OF THE STANDARDIZED SPECIAL ITEMS OF EXPENSE OBJECT WHICH MAY BE USED.

Fiscal Detail Continued

LOCAL ASSISTANCE AND DETAIL OF STAFF BENEFITS AND PERSONAL SERVICES

LOCAL ASSISTANCE				\$ ()	\$ ()	\$ ()	
SOURCE OF FUNDS	APPROPRIATION NO.						
	ORG	REF	FUND				
GENERAL FUND				\$	\$	\$	
SPECIAL FUNDS				\$	\$	\$	
FEDERAL FUNDS				\$	\$	\$	
OTHER FUNDS				\$	\$	\$	
REIMBURSEMENTS				\$	\$	\$	
CLASSIFICATION ¹	POSITIONS			SALARY/RANGE (WHOLE DOLLARS)	AMOUNT		
	CY	BY	BY + 1		CY	BY	BY + 1
Assoc. Info. Sys. Analyst		1.0	1.0	\$4,316 - \$5,247	\$	\$57	\$57
Retirement Prog. Spec II		3.0	3.0	\$4,111 - \$4,997		164	164
Research Prog. Spec. I		1.0	1.0	\$4,516 - \$5,489		60	60
Retirement Prog. Spec I		0.5	0.5	\$2,632 - \$4,155		20	20

STAFF BENEFITS DETAIL	CY	BY	BY + 1
	(WHOLE DOLLARS)		
OASDI	\$	\$21,927	\$21,927
HEALTH INSURANCE		50,760	50,760
RETIREMENT ³		45,693	45,693
WORKERS' COMPENSATION			
INDUSTRIAL DISABILITY LEAVE			
NON-INDUSTRIAL DISABILITY LEAVE			
UNEMPLOYMENT INSURANCE			
OTHER			
TOTAL ²	\$	\$118,380	\$118,380

¹ USE STANDARD ABBREVIATIONS PER THE SALARY AND WAGES SUPPLEMENT. USE FOOTNOTES TO REFLECT ANY EFFECTIVE DATE OR LIMITED TERM IF POSITION IS NOT PROPOSED FOR A FULL YEAR.

NOTE: INFORMATION PROVIDED SHOULD APPEAR IN THE SAME FORMAT AS IT WOULD APPEAR ON THE SCHEDULE 2 (CHANGES IN AUTHORIZED POSITIONS).

² TOTALS MUST BE ROUNDED TO THE NEAREST THOUSAND DOLLARS BEFORE POSTING TO PAGE I-2.

³ LIST TYPE OF RETIREMENT, I.E., MISCELLANEOUS, SAFETY, INDUSTRIAL, ETC.

SUPPLEMENTAL INFORMATION*Please report dollars in thousands.***DEPARTMENT**
CalPERS**BCP#**
1**FISCAL YEAR**
2006-2007**IDENTIFY ALL PROPOSED ITEMS WHICH FIT INTO THE CATEGORIES LISTED BELOW. SEE INSTRUCTIONS ON PAGES I-7 AND I-8.**

	CURRENT YEAR	BUDGET YEAR	BUDGET YEAR + ONE
PROPOSED EQUIPMENT			
Electronic Data Processing (PCs)		\$17	
TOTAL	\$	\$17	\$
PROPOSED CONTRACTS			
C&P Services – External (database data element design and implementation)		\$33	
TOTAL	\$	\$33	\$
ONE-TIME COSTS (LIST BY ITEM)			
Equipment- Electronic Data Processing		\$17	
C&P Services – External		33	
TOTAL	\$	\$50	\$
FUTURE SAVINGS			
TOTAL	\$	\$	\$
FULL-YEAR COST ADJUSTMENTS			
TOTAL	\$	\$	\$
FACILITIES/CAPITAL COSTS *			
TOTAL	\$	\$	\$

* Indicate one-time or ongoing.

A. NATURE OF REQUEST

The Medicare Prescription Drug, Improvement and Modernization Act (MMA) signed into law December 2003, established a prescription drug benefit program for Medicare-eligible Americans. This new prescription drug benefit program went into effect January 1, 2006 and is referred to as Medicare Part D.

Delays in federal guidance, and changes to issued guidance, on this new program precluded earlier scoping and estimation of costs for implementation. Federal program information continues to evolve.

CalPERS Health Benefits Branch (HBB) is requesting a permanent Fiscal Year 2006-2007 augmentation of \$439,000 to establish five and one-half (5.5) permanent full-time positions and a one-time augmentation of \$50,000. These positions are required to implement the processing of Medicare Part D eligibility files, reconciliation files and subsidy requests. This request does not include workload for the distribution of the subsidy received from the Centers of Medicare and Medicaid Services (CMS). The distribution of the subsidy is the subject of a request for an opinion from the Office of the Attorney General (AG). Once that opinion is received and the CalPERS Board of Administration (Board) acts upon it, future requests for staffing and funding are anticipated.

Approval of this request will allow the CalPERS Health Benefits Branch to implement the processing of Medicare Part D eligibility files, reconciliation files and subsidy requests. It would provide the required positions and associated funding to process subsidy requests for the estimated \$54 million in subsidies.

Redirection of existing positions would jeopardize CalPERS ability to meet current workload demands. Existing resources are already stretched to meet existing day-to-day core workload requirements and the continued increase of special project requirements.

A disapproval of this request will not allow the CalPERS Health Benefits Branch to implement the processing of Medicare Part D eligibility files, reconciliation files and subsidy requests. It would not provide the required positions and associated funding required to process subsidy requests for the estimated \$54 million in subsidies.

B. BACKGROUND/HISTORY

The Medicare Prescription Drug, Improvement and Modernization Act (MMA), signed into law December 2003, established a prescription drug benefit program for Medicare eligible individuals. This new prescription drug benefit program went into effect January 1, 2006 and is referred to as Medicare Part D. Medicare Part D provides subsidized access to prescription drug insurance coverage to Medicare-eligible individuals. As part of the program, the federal government established incentives for employers who manage Medicare health plans with a pharmacy component. To encourage employers to maintain their current prescription drug coverage, Medicare Part D provides an option for a plan sponsor to apply and received a federal subsidy.

Because CalPERS provides prescription drug coverage that is actuarially equivalent to Medicare Part D, CalPERS is eligible to act as the plan sponsor on behalf of all state and contracting agencies. In April 2005, the Board directed HBB to pursue the employer subsidy option. On October 26, 2005, CalPERS, as the plan sponsor, submitted an application for the subsidy on behalf of all state and contracting agency employers (except the California Association of Highway Patrolmen).

The subsidy, referred to as the Retiree Drug Subsidy (RDS), is administered by CMS. The subsidy is equal to 28 percent of the allowable drug costs between \$250 and \$5,000 per calendar year for each Medicare-eligible member and their dependents. Based on the allowable drug cost claims experience, for Medicare-eligible members and their dependents, from 2004 trended forward to 2006, the total subsidy could amount to approximately \$54 million. Based upon claims experience between State and contracting agency Medicare-eligible members, the subsidy could amount to approximately \$38 million and \$16 million

respectively.

Approval of this request will allow the CalPERS Health Benefits Branch to implement the processing of Medicare Part D eligibility files, reconciliation files and subsidy requests. It would provide the required positions and associated funding to process subsidy requests for the estimated \$54 million in subsidies.

C. STATE LEVEL CONSIDERATIONS

The Board is responsible for providing public service employees with health benefit plans similar to those commonly provided in private industry (Government Code 22752). CalPERS requires additional staff to implement the processing of Medicare Part D eligibility files, reconciliation files and subsidy requests. Preliminary estimates indicate the subsidy will generate approximately \$54 million, of which approximately \$38 million may be returned to the General Fund dependent on the opinion from the AG and the Board's approval. The funds requested as part of this Finance Letter will come off the top of the subsidy received. There should be no impact to other state departments.

D. FACILITY/CAPITAL OUTLAY CONSIDERATIONS

No additional facilities are required.

E. JUSTIFICATION

CalPERS provides prescription drug coverage that is actuarially equivalent to Medicare Part D and is eligible to act as the plan sponsor on behalf of all state and contracting agencies. In April 2005, the Board directed HBB to pursue the employer subsidy option. On October 26, 2005, CalPERS submitted an application for the subsidy on behalf of all state and contracting agency employers (except the California Association of Highway Patrolmen).

As the plan sponsor, CalPERS will be responsible for the request, collection and ultimately the distribution, of all federal Medicare Part D subsidies. Of approximately 147,000 Medicare members currently enrolled in the CalPERS Health Program, approximately 48,000 are enrolled in the Kaiser Senior Advantage Plan and 3,000 are members of the California Association of Highway Patrolmen (CAHP). Kaiser and CAHP are eligible to act as a plan sponsor and will apply and receive the subsidy for their Medicare Part D-eligible members. It is estimated that CalPERS will process subsidy requests for nearly 96,000 Medicare Part D eligible members and will generate approximately \$54 million in subsidies for the benefit of state and contracting agencies.

To implement the processing of Medicare Part D eligibility files, reconciliation files and subsidy requests, HBB must develop and maintain the following on-going business processes:

- I. CalPERS Medicare Part D Eligibility File Processing
- II. RDS Center Eligibility File Reconciliation Processing
- III. Claims Reconciliation and RDS Subsidy Request

This request does not include workload for the distribution of the subsidy received from the Centers of Medicare and Medicaid Services (CMS). The distribution of the subsidy is the subject of a request for an opinion from the Office of the Attorney General. Once that opinion is received and the CalPERS Board of Administration (Board) acts upon it, future requests for staffing and funding are anticipated.

I. CalPERS Medicare Part D Eligibility File Processing

Office of Health Policy and Program Support Services (HPPS)

- Management Information Services (MIS) Unit – 1.0 Position
 - One (1.0) Associate Information System Analyst (Spec) Position

One (1.0) Associate Information System Analysts (Spec) will be responsible for retrieving the CalPERS Medicare eligibility files and submitting them monthly to RDS Center via the web submission process. RDS Center will compare the CalPERS eligibility data files with the CMS eligibility data files and provide CalPERS with a response file. Once retrieved by the MIS Unit, the RDS response file is separated into Medicare accepted and unaccepted member account responses. MIS, in coordination with the Information Technology Services Branch (ITSB), will extract and compile the unaccepted member account lists by each of the five (5) respective health plans and transmit them to the Office of Employer and Member Health Services, Contract Administration Unit, for research and resolution; transmit monthly accepted member response files to each of the five (5) health plans; send a full accepted response file to the HPPS Research Services Unit; coordinate database clean-up issues related to the unaccepted member account data.

Once the unaccepted member accounts are resolved, the MIS Unit will resubmit the response file to the RDS Center. Additional MIS duties will involve establishing, updating and maintaining RDS eligibility data requirements, maintaining data collection and data comparison systems (including RDS file submission data criteria), database system modifications and coordinated testing, implementation and result-monitoring.

The tasks to be performed by the Associate Information System Analyst include:

- Retrieving the automated eligibility files monthly and submitting them to RDS Center through the RDS Web process
- Retrieving the RDS response files from the Web
- Re-formatting the RDS response file, separating out the accepted from the unaccepted subsidy member account responses
- Creating an Excel file of the unaccepted responses for the Office of Employer & Member Health Services, Contract Administration Unit, provide staff support to research and reconcile individual member account data
- Forwarding the full RDS response file to ITSB to load the RDS file into the database subsidy table, monitor and ensure the RDS response file is successfully loaded into database tables
- Retrieving the error log file, research and resolve all database table load errors
- Advising ITSB when log errors have been cleared and request batch process to continue
- Completing the table upload process and separate the data file
- Retrieving and transmitting each respective response file to each of the five (5) health plans and the HPPS subsidy billing staff
- Coordinating with the five (5) health plans to research and resolve their unaccepted subsidy member account responses (Medicare eligibility data clean-up; data discrepancies between CalPERS Online Member and Employer Transaction (COMET) system and the health plan member database.)
- Submitting and monitoring monthly ITSB program update requests to resolve unaccepted RDS response file data errors
- Coordinating significant change controls required by the subsidy request and disbursement process as approved by the Board; establishing system requirements, design, testing and deployment into the Public Agency billing system and/or Retirement Information Benefits System (RIBS) and/or the State Controller's Office systems
- Acting as liaison between HBB and ITSB for Part D eligibility file and resolving any technical issues related to monthly and annual RDS file submissions
- Providing the lead role in coordinating and maintaining the MIS RDS eligibility management process and procedure

In October 2005, the MIS Unit submitted the first CalPERS Medicare Part D eligibility file containing 101,000 of approximate total of 147,000 member accounts to the RDS Center for eligibility verification. In late November 2005, RDS responded with an error file containing approximately 7,000 data discrepancies. The 7,000 errors require additional data research prior to resubmission. The remaining 46,000 member accounts require additional data validation and will be submitted to RDS once the validation has been completed.

II. RDS Center Eligibility File Reconciliation Processing

Office of Employer and Member Health Services (EMHS)

- Contract Administration (CA) Unit – 3.5 positions
 - Three (3.0) Retirement Program Specialist II (Tech) Positions
 - One-half (0.5) Retirement Program Specialist I Position

Three (3.0) Retirement Program Specialist II (RPS II) positions and one-half (0.5) Retirement Program Specialist I (RPS I) position will be responsible for the RDS response file reconciliation process, which includes data reconciliation processing for all of the 147,000 Medicare Part D eligible members (which includes Kaiser Senior Advantage Plan and CAHP members). On a monthly basis, the CA Unit will receive the RDS response file from MIS containing a list of health plan member accounts determined as either eligible or ineligible for the subsidy. The CA Unit will research and resolve all ineligible member accounts, partnering with RDS, preparing written member notices, contacting and educating members by telephone. Once the CA Unit is able to identify and update member account data into COMET, the MIS Unit will resubmit the revised member account data file to the RDS Center for subsidy eligibility approval. On the RDS resubmission file, the CA unit will continue to monitor the RDS website for individual account member account notifications regarding member eligibility and continue to update COMET with the respective eligibility status changes.

The three (3.0) RPS II and the one-half (0.5) RPS I positions will be responsible for the following tasks:

- Reconciling the RDS data file
- Auditing the ineligible member accounts for data errors
- Researching the individual member accounts
- Preparing the customer notice and contacting the member for clarification of status
- Reconciling the ineligible member accounts and update the new RDS submission file
- Coordinating enrollment actions with plans
- Administering enrollment maintenance and dis-enrollment activities
- Administering RDS ineligible member status and denied subsidy pharmacy claim appeals
- Administering on-going policy and procedure implementations and modifications
- Reviewing and resolving daily electronic communications from RDS Center regarding member eligibility status

III. Claims Reconciliation and RDS Subsidy Request

Office of Health Policy and Program Support Services (HPPS)

- Research Services Unit – 1.0 Position
 - One (1.0) Research Program Specialist I Position

One (1.0) Research Program Specialist I will be responsible for monitoring and resolving problems related to the processing of monthly health plan data submissions to RDS and reconciliation of the five (5) health plans' claims payment files with the monthly CalPERS eligible member files. The Research Program Specialist I will monitor each health plan's monthly interim estimate data and annual year-end electronic data submissions to RDS and account for the gross retiree costs incurred for CalPERS' qualifying covered

retirees during the applicable payment periods. The position will maintain records that estimate the extent to which CalPERS' expected allowable retiree costs differs from the gross retiree costs, taking into account expected rebates and other price concessions that are not already included in the gross retiree costs. The position will maintain records of health plan data submitted to RDS, receive the health plan cost and use reports, compare health plan data submissions to RDS to the CalPERS request for payment of interim estimate data, and reconcile the subsidy paid by RDS. This position maintains oversight of each health plan's submission of the year-end annual data (member-level aggregate data for 105,000 retirees) in the electronic format specified by RDS and works with the health plans to resolve errors in record keeping or monthly and/or annual data submissions. The position coordinates, validates and reconciles fund transfers for all RDS subsidies for the State of California and participating contracting public agencies.

The Research Program Specialist I position will be responsible for the following tasks:

- Tracking and reconciling all monthly submissions of health plans Claims Payment Files and CalPERS Eligibility Files to RDS Center, reconciling health plan claim file submissions, coordinate with EMHS, CA Unit to take remediation action to ensure compliance, and maintain general ledger information
- Reviewing daily electronic communications on RDS Center web site related to subsidy payment at member level, verifying RDS receives information by viewing payment data summary reports on the RDS Center web site
- Receiving each health plans' monthly cost and use reports, validating the data and reconciling discrepancies.
- Ensuring that each health plans' monthly interim estimates reconcile to the year-end annual data and reconciles with electronic fund transfer (EFT) payments made to CalPERS
- Preparing and maintaining records of subsidy distributions
- Preparing and submitting monthly claim information for the payment request
- Tracking, coordinating and reconciling all EFT of Medicare Part D receipts from the CMS to CalPERS, maintaining subsidy general ledger information
- Acting as liaison with the CalPERS Fiscal Services Division (FCSD) to reconcile all RDS subsidy requests with receipt of the subsidy
- Coordinating with FCSD to track and reconcile RDS subsidy funds coordinating with the HPPS, MIS and EMHS, CA Units on member eligibility issues
- Acting as liaison between the HPPS, MIS Unit and ITSB on Medicare Part D Eligibility file issues, resolving technical issues related to monthly and annual RDS file submissions
- Developing fiscal related policies and procedures, performing business process improvement analysis, performing special projects in relation to Medicare Part D, developing complex calculations for CalPERS subsidy based on RDS guidelines.
- Coordinating RDS file retention duties with health plans, maintaining all financial records for RDS Center annual audit
- Developing research designs; defining relevant measures for conducting process and outcome evaluations; identifying and constituting comparison groups; extracting data from RDS Drug claim records and Health Care Decision Support System (HCDSS); identifying and constructing datasets suitable for statistical analysis

One-Time Consulting and Professional – External Budget Augmentation Request - \$33,000

A one-time budget augmentation for the Consulting and Professional – External line item is being requested in the amount of \$33,000 in order to design, develop and implement necessary data applications, data elements and data feeds into the HCDSS database. Standard Medicare Part D data elements embedded in COMET need to be added to the HCDSS database. The HCDSS consultant will be required to install standard Medicare Part D data elements into HCDSS and will have to design, develop and implement a new Medicare Part D enrollment table in HCDSS. Also, in order to identify Medicare Part D formulary changes in

HCDSS, to ensure accurate RDS subsidy request reimbursement calculations, a formulary indicator will be added to HCDSS to differentiate non-formulary brand from a formulary brand data element. In addition, to effectively monitor Medicare Part D enrollments, a new application function will be added to support the identification of retroactive eligibility changes.

Workload Development Assumptions

As Medicare Part D is a new workload, historical task description and workload data are not available. However, workload data was based on anticipated tasks necessary to implement and maintain the Medicare Part D Program. The tasks were grouped by function type and assigned an appropriate job classification. Projected hours, per month, to perform each task were developed. Requested Personnel Years (PYs) were developed by distributing the total hours projected per task at the rate of 1,776 hours per PY. Attachment 1 reflects the workload data.

F. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

Alternative 1: Approve this request.

An approval of this request to establish permanent funding beginning in Fiscal Year 2006-2007 of \$439,000 to establish five and one-half (5.5) permanent full-time positions and one-time funding of \$50,000 will allow the CalPERS Health Benefits Branch to implement the processing of Medicare Part D eligibility files, reconciliation files and subsidy requests. It would provide the required positions and associated funding to process subsidy requests for the estimated \$54 million in subsidies, of which an estimated \$38 million may be returned to the General Fund, dependent on the opinion from the AG and the Board's approval, and an estimated \$16 million to the contracting public agencies.

Alternative 2: Redirect staff within the Branch.

Redirection of existing positions would jeopardize CalPERS ability to meet current workload demands. Existing resources are already stretched to meet existing day-to-day core workload requirements and the continued increase of special project requirements continues to stretch our resources. Redirection would also jeopardize our ability to process subsidy requests for the estimated \$54 million in subsidies. Redirection of staff is not a viable option.

Alternative 3: Disapprove this request.

A disapproval of this request will not allow the CalPERS Health Benefits Branch to implement the processing of Medicare Part D eligibility files, reconciliation files and subsidy requests. It would not provide the required positions and associated funding required to process subsidy requests for the estimated \$54 million in subsidies.

G. TIMETABLE

Fiscal Year 2006-2007.

H. RECOMMENDATION

Approve Alternative 1.

STATE OF CALIFORNIA
FINANCE LETTER - COVER SHEET
FOR FISCAL YEAR 2006-2007
DF-46 (WORD Version)(REV 01/06)
Please report dollars in thousands.

Department of Finance
915 L Street
Sacramento, CA 95814
IMS Mail Code: A-15





BCP # 2	PRIORITY NO. 1	ORG. CODE 1900	DEPARTMENT California Public Employees' Retirement System (CalPERS)
PROGRAM Health Benefits	ELEMENT Health Benefits	COMPONENT	

TITLE OF PROPOSED CHANGE

Assist Contracting Agencies to Comply with GASB 45

SUMMARY OF PROPOSED CHANGES

The California Public Employees' Retirement System Health Benefits Branch is requesting a one-time Fiscal Year 2006-2007 augmentation of \$2.9 million to perform data extracts, develop a health actuarial assumption model, and execute a requirements analysis and cost study to assist contracting agencies to comply with GASB 45.

REQUIRES LEGISLATION <input type="checkbox"/> YES <input type="checkbox"/> NO	CODE SECTION(S) TO BE AMENDED/ADDED	BUDGET IMPACT—PROVIDE LIST AND MARK IF APPLICABLE <input checked="" type="checkbox"/> ONE-TIME COST <input type="checkbox"/> FUTURE SAVINGS <input type="checkbox"/> FULL-YEAR COSTS <input type="checkbox"/> REVENUE <input type="checkbox"/> FACILITIES/CAPITAL COSTS	
PREPARED BY 	DATE 2/06/06	REVIEWED BY 	DATE 2/6/06
DEPARTMENT DIRECTOR 	DATE 2-6-06	AGENCY SECRETARY 	DATE 2/14/06
DOES THIS BCP CONTAIN INFORMATION TECHNOLOGY (IT) COMPONENTS? YES <input type="checkbox"/> OR NO <input type="checkbox"/> IF YES, DEPARTMENT CHIEF INFORMATION OFFICER SIGNATURE _____ DATE _____			

FOR IT REQUESTS, SPECIFY THE DATE SPECIAL PROJECT REPORT (SPR) OR FEASIBILITY STUDY REPORT (FSR) WAS APPROVED BY THE DEPARTMENT OF FINANCE.

DATE _____ PROJECT # _____ FSR ☐ OR SPR ☐

IF PROPOSAL AFFECTS ANOTHER DEPARTMENT, DOES OTHER DEPARTMENT CONCUR WITH PROPOSAL?

☐ YES ☐ NO

ATTACH COMMENTS OF AFFECTED DEPARTMENT, SIGNED AND DATED BY THE DEPARTMENT DIRECTOR OR DESIGNEE.

DEPARTMENT OF FINANCE ANALYST USE
(ADDITIONAL REVIEW)

CAPITAL OUTLAY ☐ OTROS ☐ FSCU ☐ OSAE ☐ CALSTARS ☐

STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL—FISCAL DETAIL
STATE OPERATIONS
 DF-46 (REV 01/06)

Department of Finance
 915 L Street
 Sacramento, CA 95814
 IMS Mail Code: A-15

Please report dollars in thousands.

BCP # 2	DATE	TITLE OF PROPOSED CHANGE Assist Contracting Agencies to Comply with GASB 45				
PROGRAM Health Benefits	ELEMENT Health Benefits	COMPONENT				
	PERSONNEL YEARS					
	CY	BY	BY + 1	CY	BY	BY + 1
TOTAL SALARIES AND WAGES ¹				\$	\$	\$
SALARY SAVINGS	-	-	-	-	-	-
NET TOTAL SALARIES AND WAGES				\$	\$	\$
STAFF BENEFITS ²				\$	\$	\$
TOTAL PERSONAL SERVICES				\$	\$	\$
OPERATING EXPENSES AND EQUIPMENT ³						
GENERAL EXPENSE						
PRINTING						
COMMUNICATIONS						
POSTAGE						
TRAVEL—IN STATE						
TRAVEL—OUT OF STATE						
TRAINING						
FACILITIES OPERATIONS						
UTILITIES						
CONSULTING & PROFESSIONAL SERVICES: Interdepartmental ³						
CONSULTING & PROFESSIONAL SERVICES: External ³					2,935	
CONSOLIDATED DATA CENTERS						
Health and Human Services Data Center				()	()	()
Stephen P. Teale Data Center				()	()	()
DATA PROCESSING						
EQUIPMENT ³						
DEBT SERVICE						
OTHER ITEMS OF EXPENSE: (specify below)						
TOTAL OPERATING EXPENSES AND EQUIPMENT				\$	\$	\$
SPECIAL ITEMS OF EXPENSE ⁴				\$	\$	\$
TOTAL STATE OPERATIONS EXPENDITURES						
				\$	\$2,935	\$
SOURCE OF FUNDS	APPROPRIATION NO.					
	ORG	REF	FUND			
GENERAL FUND				\$	\$	\$
SPECIAL FUNDS	1900	001	0950	\$	\$2,935	\$
FEDERAL FUNDS				\$	\$	\$
OTHER FUNDS (SPECIFY)				\$	\$	\$
REIMBURSEMENTS				\$	\$	\$

¹ ITEMIZED DETAIL ON PAGE I-3 BY CLASSIFICATION AS IN SALARIES AND WAGES SUPPLEMENT.² PROVIDE DETAIL ON PAGE I-3.³ PROVIDE LIST ON PAGE I-4.

Fiscal Detail Continued

LOCAL ASSISTANCE AND DETAIL OF STAFF BENEFITS AND PERSONAL SERVICES

LOCAL ASSISTANCE				\$ ()	\$ ()	\$ ()	
SOURCE OF FUNDS	APPROPRIATION NO.						
	ORG	REF	FUND				
GENERAL FUND				\$	\$	\$	
SPECIAL FUNDS				\$	\$	\$	
FEDERAL FUNDS				\$	\$	\$	
OTHER FUNDS				\$	\$	\$	
REIMBURSEMENTS				\$	\$	\$	
CLASSIFICATION ¹	POSITIONS			SALARY/RANGE (WHOLE DOLLARS)	AMOUNT		
	CY	BY	BY + 1		CY	BY	BY + 1
				\$	\$	\$	
</							

STAFF BENEFITS DETAIL	CY	BY	BY + 1
	(WHOLE DOLLARS)		
OASDI	\$	\$	\$
HEALTH INSURANCE			
RETIREMENT ³			
WORKERS' COMPENSATION			
INDUSTRIAL DISABILITY LEAVE			
NON-INDUSTRIAL DISABILITY LEAVE			
UNEMPLOYMENT INSURANCE			
OTHER			
TOTAL ²	\$	\$	\$

¹ USE STANDARD ABBREVIATIONS PER THE SALARY AND WAGES SUPPLEMENT. USE FOOTNOTES TO REFLECT ANY EFFECTIVE DATE OR LIMITED TERM IF POSITION IS NOT PROPOSED FOR A FULL YEAR.
NOTE: INFORMATION PROVIDED SHOULD APPEAR IN THE SAME FORMAT AS IT WOULD APPEAR ON THE SCHEDULE 2 (CHANGES IN AUTHORIZED POSITIONS).

² TOTALS MUST BE ROUNDED TO THE NEAREST THOUSAND DOLLARS BEFORE POSTING TO PAGE I-2.

³ LIST TYPE OF RETIREMENT, I.E., MISCELLANEOUS, SAFETY, INDUSTRIAL, ETC.

SUPPLEMENTAL INFORMATION*Please report dollars in thousands.***DEPARTMENT**
CalPERS**BCP#**
2**FISCAL YEAR**
2006-2007**IDENTIFY ALL PROPOSED ITEMS WHICH FIT INTO THE CATEGORIES LISTED BELOW. SEE INSTRUCTIONS ON PAGES I-7 AND I-8.**

	CURRENT YEAR	BUDGET YEAR	BUDGET YEAR + ONE
PROPOSED EQUIPMENT			
TOTAL	\$	\$	\$
PROPOSED CONTRACTS			
External Contracts		2,935	
TOTAL	\$	\$2,935	\$
ONE-TIME COSTS (LIST BY ITEM)			
External Contracts		2,935	
TOTAL	\$	\$2,935	\$
FUTURE SAVINGS			
TOTAL	\$	\$	\$
FULL-YEAR COST ADJUSTMENTS			
TOTAL	\$	\$	\$
FACILITIES/CAPITAL COSTS *			
TOTAL	\$	\$	\$

A. NATURE OF REQUEST

The California Public Employees' Retirement System (CalPERS) administers the CalPERS Health Program for nearly 1.2 million active and retired employees, and family members of the State of California, California State University, and over 1,100 contracting agencies, which includes cities, counties, school districts and special districts.

Currently, most state and local governments pay for retiree health benefit costs on a pay-as-you-go basis, meaning the costs to provide health benefits to active and retired members are paid for as they come due.

In 2004, the Governmental Accounting Standards Board (GASB), an independent advisory board which sets accounting standards for state and local governments, released Statement Number 45 (GASB 45). GASB 45 is a new accounting standard requiring public employers to calculate other post-employment retirement benefit (OPEB) plan costs (retiree health benefits; vision, dental, etc.) on an accrual accounting basis.

CalPERS is requesting a one-time Fiscal Year (FY) 2006-2007 in expenditure authority of \$2,935 million to assist contracting agencies to comply with GASB 45 financial reporting requirements. GASB 45 requires public employers begin reporting their OPEB expenses and related liabilities on their financial statements as early as FY 2007-2008.

If this request is not approved, CalPERS will not be able to assist contracting agencies to comply with GASB 45 financial reporting requirements. It would force contracting agencies to look at alternative means of providing funding and resources for the infrastructure necessary to comply with GASB 45 financial reporting requirements.

B. BACKGROUND/HISTORY

In 1992, The Financial Accounting Standards Board (FASB), the standard setting body that stipulates Generally Accepted Accounting Principles (GAAP) for the private sector, released Statement Number 106, which required disclosure of the total obligation for retiree health care costs in the financial statements of private sector employers.

GASB is the standard setting body that promulgates GAAP for state and local governments. Through the issuance of statements, GASB affects changes to the information presented in financial reports. The intent of the changes is to more accurately display the financial condition of state and local governments. The financial condition would be displayed in various financial reports, including the Comprehensive Annual Financial Report (CAFR). A CAFR is the local government's audited financial statements issued in accordance with GAAP.

Credit rating agencies use the data reported in the CAFR to evaluate risk and assign credit ratings for bond and other debt instruments issued by the local governments to finance government operations. Rating agencies determine their credit rating based upon the reported financial data. The accuracy and completeness of the data affect the rate of interest local governments must pay on the debt instruments issued. Failure to comply with GASB 45 will have an adverse impact on local government's credit ratings, requiring payment of higher interest on debt instruments.

In 2004, the GASB released Statement 45, which requires public employers to calculate and report OPEB expenses and related liabilities on an accrual method in their financial reports. The fiscal year when employers must start recognizing their OPEB costs is determined based on the employer's total annual revenue in the first fiscal year ending after June 15, 1999.

Implementation of GASB 45 for employers will occur in three phases as follows:

- If revenues exceed \$100 million, employers must start reporting in the 1st fiscal year beginning after December 15, 2006 or FY 2007-2008.
- If revenues are between \$10 to \$100 million, employers must start reporting in the 1st fiscal year beginning after December 15, 2007, or FY 2008-2009.
- If revenues are less than \$10 million, employers must start reporting in the 1st fiscal year beginning after December 15, 2008, or FY 2009-2010.

Although implementation dates are set in GASB 45, employers can begin reporting under GASB 45 standards at an earlier date. For CalPERS' largest employer, the State of California, compliance would be required by FY 2007-2008. For other public agencies and school districts, compliance would be required as early as FY 2007-2008 or as late as FY 2009-2010.

CalPERS Health Pre-Funding Business Models

In September 2004, CalPERS staff recommended the following three business models to the CalPERS Board of Administration (Board) to comply with GASB 45 financial reporting requirements:

- I. Data Only Model – CalPERS would provide data to employers, who would then be responsible for their own actuarial valuations for calculating their pre-funding health liability.
- II. Actuarial Valuation Only Model - CalPERS would perform actuarial valuations to determine employers' expected health liabilities and annual contribution rates. CalPERS would calculate a contribution rate that would fully fund the liability. The employers would deposit their contributions with entities other than CalPERS.
- III. Full Service Model – Fully engage in the business of pre-funding health benefits. CalPERS would perform the actuarial data extract, perform actuarial valuations, calculate annual contribution rates, collect, invest, and disburse pre-funding contributions.

In July 2005, upon further discussion of the proposed business models, the Board directed staff to complete a survey of local governments to seek their views on the pre-funding of retiree health benefits.

The survey of local governments was completed in Fall 2005. Results indicate local governments overwhelmingly intend to comply with GASB financial reporting requirements and agree that they would use CalPERS' health actuarial valuations and pre-funding contribution administration services:

- 72 percent of the 166 respondents, indicated CalPERS should invest and individually account for an employer's accumulated assets set aside to offset the GASB 45 liabilities.
- 88 percent of the 166 respondents, indicated they would use CalPERS' actuarial services to prepare the necessary accounting expense and disclosures and would be willing to pay an administrative fee for such service.

In response to the question concerning 'the approximate market value of assets your organization would likely send to CalPERS at the commencement of a CalPERS program for the purpose of investing funds for pre-funding OPEB', 15 local governments responded with values ranging from \$72,000 to \$98 million.

Although there is not an active health pre-funding business model in operation to study actual operations and results, CalPERS successful administration of the pre-funded retirement system demonstrates pre-funding is a sensible business approach to reduce future liabilities. In this system, employers and employees contribute funds now to pay for benefits received upon retirement. When CalPERS began operations in 1932, assets were valued at \$800,000. As of November 2005, the fund reached a milestone net asset value of \$200 billion. Investment income is recognized as a critical component in reduction of future direct expense related to retiree benefits payments. As of June 30, 2004, CalPERS was 87.3 percent funded compared to the average U.S. pension fund, which was 83 percent funded. This impressive growth reflects CalPERS' successful diversified investment strategy and its responsiveness to market developments. To mitigate the rising cost of health, local governments can begin setting aside funding and potentially invest with CalPERS to help offset the cost of future retiree health premium contributions.

C. STATE LEVEL CONSIDERATIONS

Under Government Code Section 22752, the CalPERS Board of Administration is responsible for providing public service employees with health benefit plans similar to those commonly provided in private industry.

The State Controller's Office (SCO) prepares and publishes California's financial reports, which includes the CAFR, as required by Government Code Sections 12460 and 12461. The financial reports must be "all encompassing" and in compliance with nationally recognized generally accepted accounting principles. This proposal will enable the State to continue to comply with the policy regarding full and accurate financial reporting.

A one-time increase to the Contingency Reserve Fund administrative fee for contracting agencies will provide the funding for this request. There will be no impact to the General Fund.

D. FACILITY/CAPITAL OUTLAY CONSIDERATIONS

No additional facilities are required.

E. JUSTIFICATION

Assisting contracting agencies comply with GASB 45 financial reporting requirements meets CalPERS 2006 Strategic Plan Goals and aligns with its continuing commitment to:

- Exercise national leadership to ensure sustainability of CalPERS' pension and health benefit system
- Enable and educate members and employers to make informed decisions leading to a predictable and secure retirement future
- Achieve long-term sustainable, risk adjustment returns

Assisting contracting agencies to comply with GASB 45 financial reporting requirements also aligns with the CalPERS' Mission Statement: "Our mission is to advance the financial and health security for all who participate in the System". We will fulfill this mission by creating and maintaining an environment that produces responsiveness to all those we serve." It aligns with CalPERS' fiduciary responsibility to its members as the Board is granted full authority and responsibility for administration of the system under Public Employee's Retirement Law (PERL), Chapter 2, Article 3, Sections 20150 and 20151. The Law further directs that it is "...CalPERS' fiduciary duty to act solely in the best interests of the participants of the system".

This request provides the necessary funding to meet the short-term and long-term needs of the contracting agencies. CalPERS will assist contracting agencies in meeting their short-term needs by providing the health data necessary to complete the health actuarial valuation necessary to calculate their health benefit liability. Also, CalPERS will act as the agent between the contracting agencies and the CalPERS consulting actuaries, whereby, the contracting agencies will have their valuations completed by a CalPERS' consulting actuary on an agreed upon price. In addition, this request will allow CalPERS to meet the long-term needs of contracting agencies by executing a cost study to determine the functional and business requirements necessary to implement the full service model, which would include in-house actuarial valuation services. Because CalPERS maintains health benefit data for the State and over 1,100 contracting agencies required under GASB 45 to determine and report their health benefit liability, state and public agency employers will look to CalPERS to supply this data. Assisting contracting agencies to comply with GASB 45 will require the development of the following:

- Data Extraction
- Health Actuarial Assumption Model
- Requirements Analysis and Cost Study for Pre-Funding Retirement Health Benefit Program

Data Extraction

CalPERS is requesting an augmentation of \$30,000 for one-time set-up costs for consultants to develop data extraction interfaces and modules to enable CalPERS to extract and disseminate the actuarial data elements, to contracting agencies or directly to the actuarial consultants, to be used in the preparation of health actuarial valuations.

The Budget Change Proposal (BCP) submitted by the SCO, which has been included in the FY 2006-2007 Governor's Budget, provided funding for data extracts. However, further analysis by CalPERS has determined that additional data extracts from the Retirement Information Benefits System (RIBS) and the Contribution Reporting System (CRS) are required. This proposal requests the funding to develop the RIBS and CRS extracts.

The extracted data will be encrypted, following all data privacy and protection guidelines, and would be compliant with the Health Insurance Portability and Accountability Act (HIPAA). Once the data extract is established, the on-going work effort to extract and transmit data is minimal and will be accomplished with existing resources.

Health Actuarial Assumption Model

The proposal requests a one-time augmentation of \$150,500 to develop a health actuarial assumption model. The model will set the trend assumptions, which will be used to perform the health actuarial valuations. Some of the factors used in the model include current and past health premium rates, pharmacy and medical claims in aggregate, retiree health benefit coverage and eligibility rules, and future inflation rates. Using the model and the application of advanced statistical methods will ensure the health actuarial valuations accurately estimate the dollar amount of the unfunded liability.

Requirements Analysis and Cost Study for Pre-Funding Retirement Health Benefit Program

CalPERS is requesting an augmentation of \$2,750,000 for 12 business analyst consultants to prepare a detailed cost analysis to determine the functional and business requirements necessary to implement a full service model, which includes in-house actuarial valuations. The cost study will include:

- Cost analysis for in-house actuarial valuations
- Cost analysis for pre-funding contribution investment options
- Development of a system interaction model
- Development of a business interaction model
- Documentation of all business and technical requirements

F. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

Alternative 1: Approve this request to assist contracting agencies to comply with GASB 45 financial reporting requirements.

This request will fund the start-up costs to enable CalPERS to assist contracting agencies to comply with GASB 45 financial reporting requirements. Providing data extracts and development of a health actuarial assumption model will meet their immediate needs. To assist meeting their long-term needs, CalPERS will execute a requirements analysis and cost study to determine the functional and business requirement required to implement the full service model. The study will also address accepting pre-funding contributions and investing the funds that can be used to minimize the cost, to employers and taxpayers, of providing retiree health benefits. This proposal is in alignment with the CalPERS' 2006 Strategic Plan goals, Mission Statement and meets its fiduciary responsibility to its PEMHCA health plan members. In addition, this proposal has no impact to the General Fund.

Alternative 2: Provide Data Only.

CalPERS would provide necessary health data to contracting agencies, who would then be responsible for procuring their own actuarial valuations and pre-funding contribution administrator. Providing data only to the

contracting agencies does not further CalPERS' 2005 Strategic Plan goals or its mission. Contracting agencies may withdraw from the CalPERS Health Program if they were relying on CalPERS to provide full services or if they are offered a competitive health benefit package from another provider or broker that includes these additional services. In addition, contracting agencies will not be provided the opportunity to minimize the cost, to employers and taxpayers, of providing retiree health benefits through investment income.

Alternative 3: Provide Actuarial Valuations Only.

CalPERS would act as an agent between the contracting agencies and the consulting actuaries to provide the actuarial valuations for contracting agencies. The consulting actuaries will calculate a contribution rate to fund the contracting agencies retiree health benefit liability. Because CalPERS already maintains health benefit data for over 1,100 contracting agencies, and because employers will be required to determine their reportable health benefit liability, they will most likely look to CalPERS to supply this data. Contracting agencies may withdraw from the CalPERS Health Program if they were relying on CalPERS to provide full services or if they are offered a competitive health benefit package from another provider or broker that includes these additional services. In addition, by providing actuarial valuations only, contracting agencies will not be provided the opportunity to minimize the cost, to employers and taxpayers, of providing retiree health benefits through investment income.

Alternative 4: Disapprove this request.

CalPERS would not be able to assist contracting agencies in complying with GASB 45 financial reporting requirements. Contracting agencies would then be responsible for procuring their own actuarial valuations. This alternative does not further CalPERS' 2005 Strategic Plan goals or its mission. Contracting agencies may withdraw from the CalPERS Health Program if they were relying on CalPERS to provide full services or if they are offered a competitive health benefit package from another provider or broker that includes the additional services. In addition, by disapproving this request, contracting agencies will not be provided the opportunity to minimize the cost, to employers and taxpayers, of providing retiree health benefits through investment income.

G. TIMETABLE

The SCO has submitted a BCP, which has been included in the FY 2006-2007 Governor's Budget. To meet GASB 45 compliance standards, the State must begin reporting in the first fiscal year beginning after December 15, 2006, or FY 2007-2008. The SCO is required to prepare the 2007-2008 audited financial statements to provide to the State Treasurer's Office by February 2009 for bond rating purposes. Contracting agencies must begin reporting, at the earliest, in the first fiscal year beginning after December 15, 2006, or FY 2007-2008. With similar timelines for audited financial statement preparations, contracting agencies would require, at minimum, actuarial valuation data in order to determine the dollar amount of their unfunded retiree health benefit liability. Contracting agencies will require actuarial data extractions and the actuarial valuations during the first quarter of FY 2007-2008. Since CalPERS maintains member health benefit data for over 1,100 contracting agencies, they will look to CalPERS to supply this data. This request would allow CalPERS to be operational in advance of the employer's expected demand for data.

H. RECOMMENDATION

Approve Alternative 1.